

NEW JERSEY DIVISION OF INVESTMENT

ANNUAL MEETING

State Investment Council

January 27, 2021

“The mission of the New Jersey Division of Investment is to achieve the best possible return at an acceptable level of risk using the highest fiduciary standards.”

Background: The New Jersey State Investment Council

New Jersey State Investment Council (the “Council”)

- **The State Investment Council is responsible for the formulation of policies that govern the investment of funds by the Division of Investment consistent with the fiduciary duties set forth by statute**
 - the Council provides fiduciary oversight for the assets managed by the Division
 - the Pension Fund, with \$76.7 billion in assets, comprises the bulk of assets managed by the Division
 - pursuant to P.L. 2018, c. 55 (the “PFRS Act”), the authority to direct investment policy of the Police and Firemen’s Retirement System (“PFRS”) was transferred from the Council to the Board of Trustees of PFRS
 - the Council retains its oversight responsibility for the non-PFRS portion of the Pension Fund
- **The State Investment Council is NOT responsible for:**
 - Funding Policy (plan contributions)
 - Benefits Policy (plan design)
 - Actuarial Activities (setting actuarial expected return)

Background: The New Jersey Division of Investment

New Jersey Division of Investment (the “Division”)

Division of Investment Assets Under Management

Assets as of 6/30/20 (\$ millions)	
Pension Fund ⁽¹⁾	\$76,717
Cash Management Fund (CMF)	18,480
Deferred Compensation Plan funds (DCP)	549
NJBEST Funds (NJBEST)	210
Supplemental Annuity Collective Trust (SACT)	226
Trustees for the Support of Public Schools Fund (TSPSF)	160
Total ⁽²⁾	\$91,309

Division of Investment “At A Glance”

- 20th largest U.S. pension fund manager ⁽³⁾
- 60 active employees with a \$9.6 million personnel budget ⁽⁴⁾
- during Fiscal Year 2020, the Division traded:
 - 685 million shares of stock worth \$22.2 billion
 - \$10.6 billion in fixed income securities ⁽⁵⁾
 - \$890 million in foreign currency transactions
- During Fiscal Year 2020, the Pension Fund earned:
 - \$897 million in stock dividends
 - \$369 million in bond interest

MISSION STATEMENT

“The mission of the New Jersey Division of Investment is to achieve the best possible return at an acceptable level of risk utilizing the highest fiduciary standards.”

Note: All figures are as of June 30, 2020 unless otherwise noted.

(1) Throughout this presentation, Pension Fund totals include PFRS assets.

(2) The Total excludes \$5 billion held in CMF which is included in the totals for the Pension Fund, the DCP, NJBEST, SACT, and TSPSF

(3) Measured by assets as of September 30, 2019. Reported by P&I on February 10, 2020

(4) As of January 27, 2021

(5) The total trades in fixed income securities include only the Pension Fund

Division of Investment Update: 2020 Year in Review

The Division transitioned to a “work from home” environment in the midst of the pandemic

- the Division successfully implemented a robust disaster recovery plan and was able to adjust to changing circumstances, allowing for a smooth transition
- the team looks forward to a return to “normalcy” when it is safe to do so

The Division completed a formal Asset Allocation Study

- a new targeted asset allocation, approved by the Council, better aligns the Pension Fund with the realities of the capital markets in the wake of the pandemic
- in an environment of elevated equity valuations and exceptionally low interest rates, the targeted allocation to private market assets was gradually increased

The Division continued to build out its Environmental, Social, and Governance (ESG) efforts

- the Council’s new Proxy Voting Policy was implemented in 2020
- the Division advocated for better financial disclosure of climate-related risks and improved governance, including greater diversity in the leadership and boards of the companies in which the Pension Fund invests
- the Division identified its first Sustainable Investing Portfolio Manager
- the Division neared the completion of an RFP process to retain ESG-related services provider(s)

The Division furthered its initiative to expand opportunities for minority-owned and women-owned business enterprises (MWBs)

- recent efforts have substantially boosted the amount of new capital invested in MWBE-managed firms
- the Division identified its first Diversity Portfolio Manager

The Division expanded its senior investment team

- the Division is pleased to welcome Shoab Khan, Eddie Ramos, Bill Connors, Niraj Agarwal, and James Ochido

NJ Pension Fund Annual Performance: Fiscal Years 2001-2020

	NJ Pension Fund ⁽¹⁾	Policy Benchmark	Variance (in bps)
FY 2001	-9.80%	-6.71%	-309
FY 2002	-8.61%	-7.25%	-136
FY 2003	3.31%	3.47%	-16
FY 2004	14.16%	14.44%	-28
FY 2005	8.77%	8.07%	70
FY 2006	9.79%	8.13%	166
FY 2007	17.14%	16.49%	65
FY 2008	-2.61%	-6.00%	339
FY 2009	-15.49%	-14.76%	-73
FY 2010	13.34%	13.51%	-17
FY 2011	17.97%	17.13%	84
FY 2012	2.47%	0.26%	221
FY 2013	11.72%	10.96%	76
FY 2014	16.79%	15.79%	100
FY 2015	4.09%	2.93%	116
FY 2016	-0.93%	0.23%	-116
FY 2017	13.07%	13.14%	-7
FY 2018	9.06%	8.65%	41
FY 2019	6.27%	7.07%	-80
FY 2020	1.21%	4.13%	-292
10 Year Annualized Returns	7.99%	7.87%	12
15 Year Annualized Returns	6.54%	6.14%	40
20 Year Annualized Returns	5.16%	5.10%	6

(1) Throughout this presentation, NJ Pension Fund returns exclude Police and Fire mortgage program

Long-Term Capital Market Returns

	Annualized Returns for Periods Ending December 31, 2020 (%)				
	One Year	Three Years	Five Years	Ten Years	Fifteen Years

Global Equity Index

MSCI All Country World Index	16.26	10.05	12.24	9.12	7.19
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US Equity Indices

Russell 3000	20.88	14.47	15.40	13.78	9.97
Russell 1000	20.95	14.80	15.57	13.99	10.05
Russell 2000	19.93	10.21	13.22	11.19	8.89
Russell Growth	38.26	22.48	20.64	16.91	12.39
Russell Value	2.86	5.88	9.71	10.34	7.28

Non-US Equity Indices

MSCI EAFE & Canada	7.59	4.22	7.63	5.18	4.46
MSCI Emerging Markets	18.31	6.17	12.79	3.63	6.59

Private Equity

Cambridge Global PE and VC Index ⁽¹⁾	20.37	16.16	14.79	14.62	12.55
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(1) Cambridge Global PE and VC Index returns are presented with a three-month lag and are calculated on an IRR basis

Source: Bloomberg and Cambridge Associates

Long-Term Capital Market Returns

	Annualized Returns for Periods Ending December 31, 2020 (%)				
	One Year	Three Years	Five Years	Ten Years	Fifteen Years

Fixed Income & Credit Indices

Bloomberg Barclays U.S. Aggregate	7.51	5.34	4.43	3.84	4.49
Bloomberg Barclays U.S. Treasury	8.00	5.19	3.77	3.33	4.04
Bloomberg Barclays U.S. Credit	9.35	6.79	6.43	5.40	5.59
Bloomberg Barclays U.S. Credit (A or better)	9.42	6.34	5.62	4.93	5.10
Bloomberg Barclays U.S. Credit (BBB)	9.43	7.34	7.47	6.07	6.36
Bloomberg Barclays U.S. High Yield	7.11	6.23	8.58	6.79	7.49
S&P/LSTA Leveraged Loan Index	3.12	4.01	5.23	4.32	4.62
Wells Fargo BDC Index	-11.18	1.85	5.64	5.38	5.47

Real Estate Index

NCREIF Property Index ⁽¹⁾	0.52	4.25	5.69	9.26	5.71
Bloomberg U.S. REIT Index	-5.52	4.81	6.47	9.11	6.93

Real Assets & Commodities Indices

Bloomberg Commodities Index	-3.50	-3.98	-0.13	-7.06	-5.10
Alerian MLP Index	-28.69	-12.68	-5.94	-2.31	3.60

(1) NCREIF Property Index returns are presented with a three-month lag

Source: Bloomberg and National Council of Real Estate Investment Fiduciaries

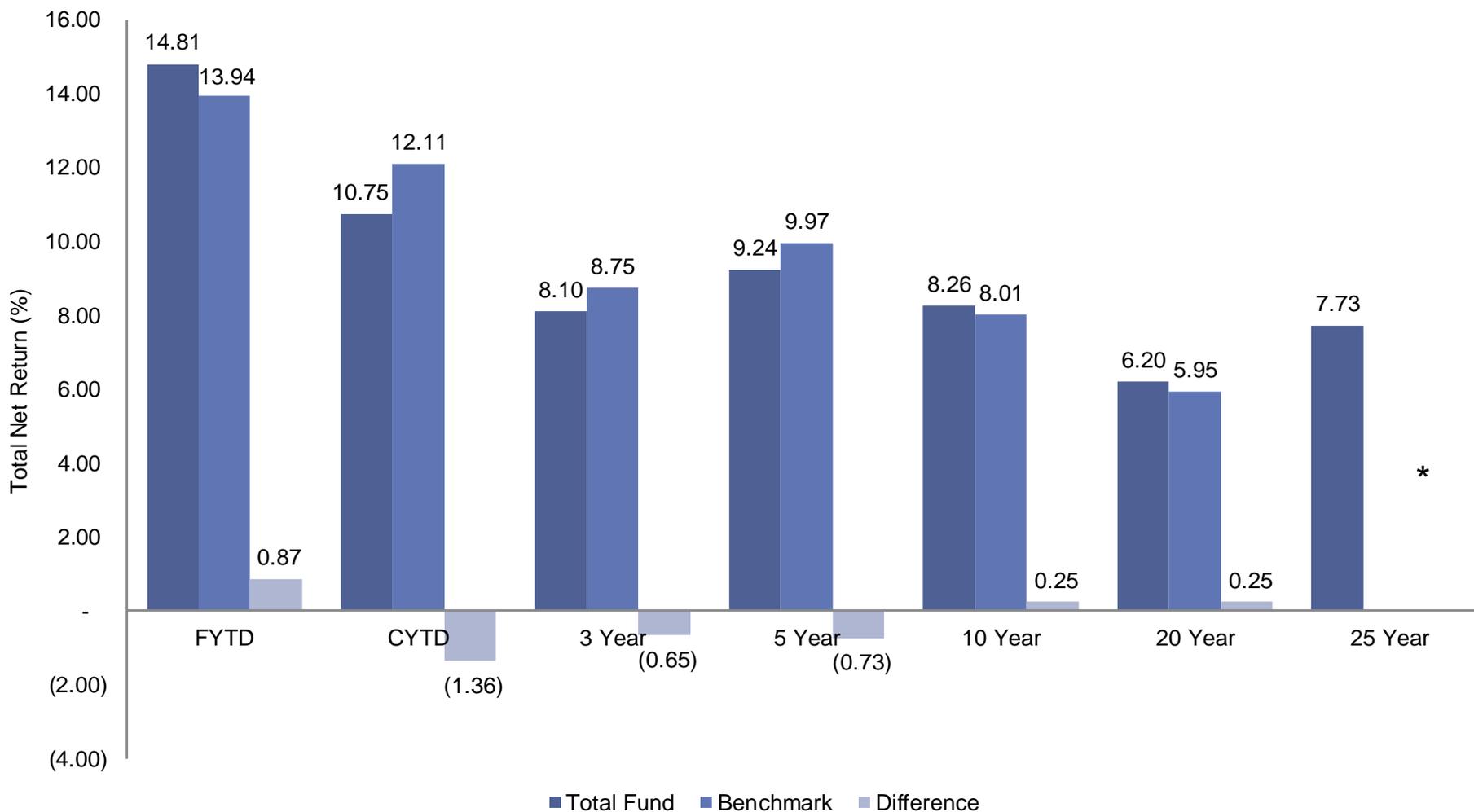
Ten Year Periodic Table of Returns⁽¹⁾

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011 - 2020
Real Estate 17.18	Emerging Markets 18.22	Russell 3000 33.57	Private Equity 17.63	Real Estate 13.86	High Yield 17.13	Emerging Markets 37.28	Private Equity 17.91	Russell 3000 31.01	Russell 3000 20.88	Private Equity 14.62
Private Equity 14.51	Russell 3000 16.42	EAFE & Canada 21.02	Russell 3000 12.55	Private Equity 11.48	Russell 3000 12.72	EAFE & Canada 24.21	Real Estate 7.71	EAFE & Canada 22.49	Private Equity 20.37	Russell 3000 13.78
Treasuries 9.81	EAFE & Canada 16.41	Private Equity 16.70	Real Estate 11.36	Treasuries 0.84	Commodities 11.40	Russell 3000 21.12	Treasuries 0.86	Emerging Markets 18.42	Emerging Markets 18.31	Real Estate 9.26
Corporates 8.35	High Yield 15.81	Real Estate 11.97	Corporates 7.53	Russell 3000 0.47	Emerging Markets 11.19	Private Equity 16.97	High Yield -2.08	High Yield 14.32	Corporates 9.35	High Yield 6.79
High Yield 4.98	Private Equity 12.20	High Yield 7.44	Treasuries 5.05	Corporates -0.77	Private Equity 9.46	High Yield 7.50	Corporates -2.11	Corporates 13.80	Treasuries 8.00	Corporates 5.40
Russell 3000 1.03	Real Estate 10.47	Corporates -2.01	High Yield 2.45	EAFE & Canada -3.04	Real Estate 9.08	Real Estate 6.70	Russell 3000 -5.25	Private Equity 10.44	EAFE & Canada 7.59	EAFE & Canada 5.18
EAFE & Canada -12.21	Corporates 9.37	Emerging Markets -2.60	Emerging Markets -2.19	High Yield -4.47	Corporates 5.63	Corporates 6.18	Commodities -12.99	Treasuries 6.86	High Yield 7.11	Emerging Markets 3.63
Commodities -13.37	Treasuries 1.99	Treasuries -2.75	EAFE & Canada -4.32	Emerging Markets -14.92	EAFE & Canada 2.75	Treasuries 2.31	EAFE & Canada -14.09	Commodities 5.44	Real Estate 0.52	Treasuries 3.33
Emerging Markets -18.42	Commodities -1.14	Commodities -9.58	Commodities -17.04	Commodities -24.70	Treasuries 1.04	Commodities 0.75	Emerging Markets -14.57	Real Estate 4.64	Commodities -3.50	Commodities -7.06

Over the past ten years, Private Equity, U.S. Equities, and Real Estate were the three best performing asset classes. The wide variation of returns amongst asset classes in each of the past ten years reinforces the important role of diversification in asset allocation.

(1) Private Equity and Real Estate returns are presented with a three-month lag. Private Equity returns are calculated using an IRR methodology.
Source: Bloomberg, Cambridge Associates, and National Council of Real Estate Investment Fiduciaries

Long-Term NJ Pension Fund⁽¹⁾ Returns versus Policy Benchmark (as of December 31, 2020)

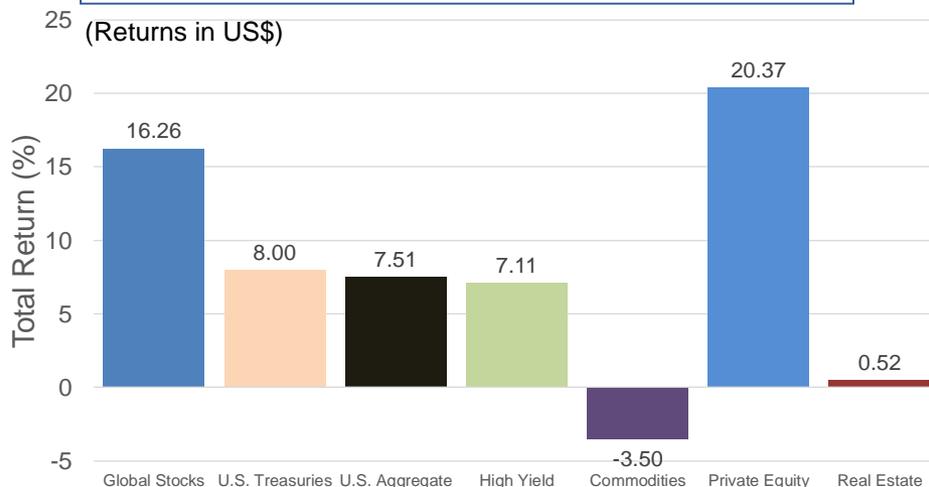


(1) Returns are preliminary, unaudited, net of all fees, and exclude Police and Fire Mortgage Program. Certain asset class returns, including private equity, real assets, real estate, and private credit do not include up-to-date valuations and benchmark returns for these asset classes are calculated on a lagged basis. This results in performance comparisons that may be less meaningful.

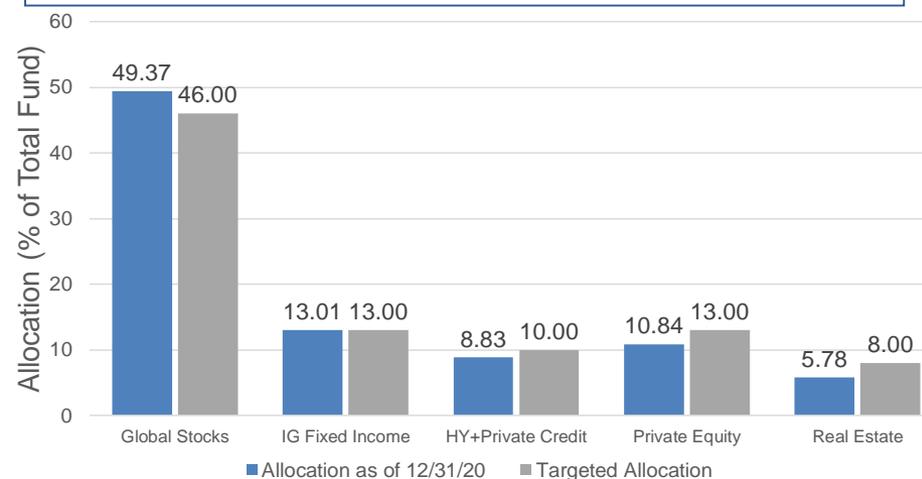
* Benchmark return not available for 25-Year period

2020 Capital Markets Review: Multi-Asset Class Returns

2020 Select Capital Market Returns ⁽¹⁾



2020 Pension Fund Asset Allocation



During 2020, Global Stocks (+16.26%) realized strong returns, while experiencing both the fastest decline into a bear market and the fastest return to a bull market ever. Fixed Income returns were also strong, led by U.S. Treasuries (+8.00%). Commodities (-3.50%) were weak as the global pandemic brought an abrupt end to the longest U.S. economic expansion on record.

In an environment of elevated equity valuations and exceptionally low interest rates, the Council increased the targeted allocation to Private Equity, Private Credit, and Real Estate. Following strong Global Stock returns, the Pension Fund ended calendar year 2020 with an above target allocation to Global Stocks.

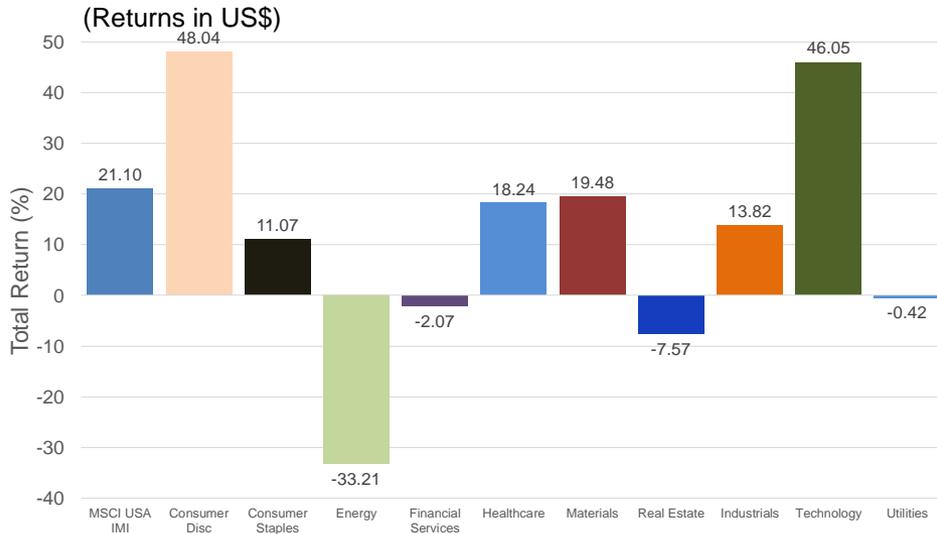
Following sharp volatility in the global capital markets in the midst of the pandemic, Global Equities rebounded sharply, supported by extraordinary monetary and fiscal policy. Most asset classes realized returns that exceeded longer-term expectations.

(1) Private Equity (PE) and Real Estate (RE) returns reflect a three-month lag

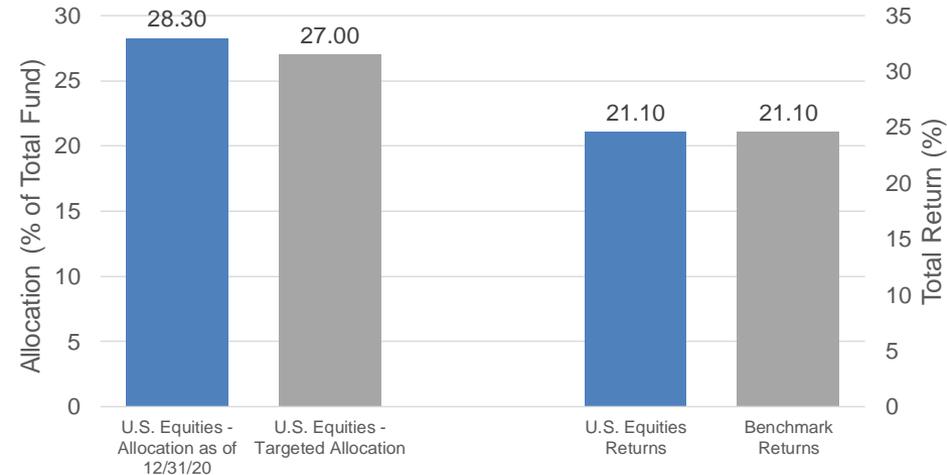
Source: Bloomberg, Cambridge Associates, National Council of Real Estate Investment Fiduciaries, and State Street as of January 17, 2021

2020 Capital Markets Review: US Equity Sector Returns

2020 Select Capital Market Returns



2020 Pension Fund Asset Allocation and Returns (1)



U.S. Equities have outperformed the global equity market in nine of the past eleven years.

Returns were led by the Consumer Discretionary (+48.04%) and Technology sectors (+46.05%). Growth stocks significantly outperformed value stocks over the past year (+38.26% vs +2.86%).

Following an extended period in which the Pension Fund benefited from a pronounced home country bias, the Council approved a shift toward a global equity allocation. The targeted allocation to U.S. Equities declined from 28% to 27%.

Following a 35% drawdown over a five week period, U.S. Equities subsequently returned +77% from the March low through year-end.

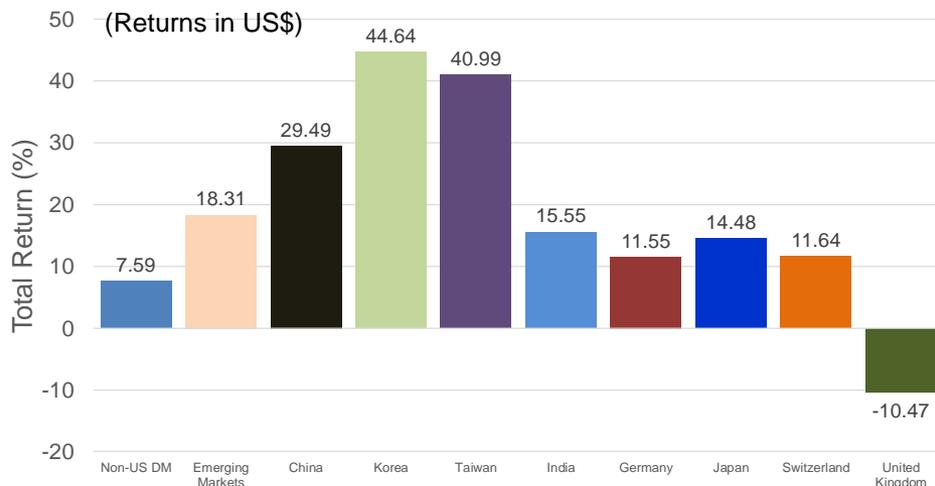
(1) Targeted Allocation effective October 1, 2020

Source: Bloomberg, MSCI, and State Street as of January 17, 2021

Note: Fund returns are unaudited. Fund allocation and returns are based on preliminary values.

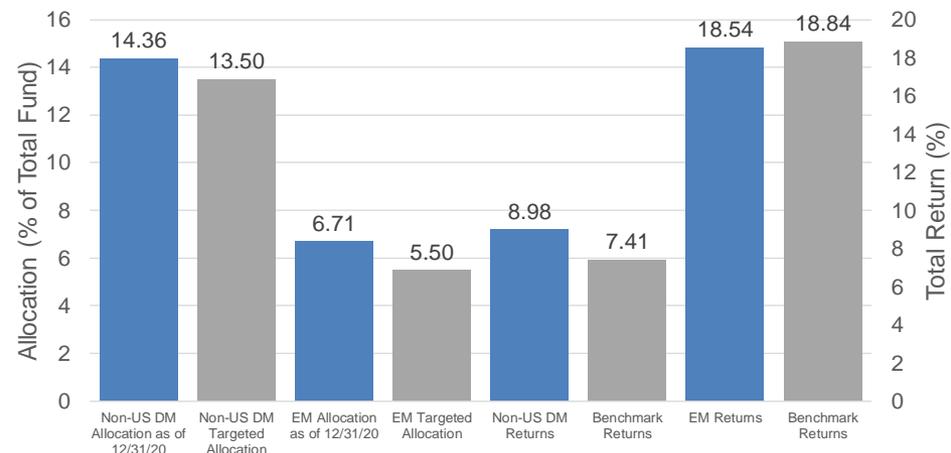
2020 Capital Markets Review: International Equity Returns

2020 Select Capital Market Returns



During 2020, Emerging Market (EM) Equities (+18.31%) significantly outperformed non-U.S. Developed Market (DM) Equities (+7.59%), reflecting, in part, a sharper and more sustained economic recovery following the global shutdown. China (+29.49%), Korea (+44.64%), and Taiwan (+40.99%) led the International Equity markets.

2020 Pension Fund Asset Allocation and Returns (1)



The Council approved a modest increase in the targeted allocation to DM (from 12.5% to 13.5%) and a decrease in the targeted allocation to EM (from 6.5% to 5.5%). The shift to a global equity allocation recognizes that key U.S. equity tailwinds over the past decade (e.g., favorable sector exposures, more attractive beginning valuations, a weakening U.S. dollar, more aggressive monetary and fiscal policies) may be less impactful over the next decade.

During 2020, International Equities realized favorable returns, but underperformed U.S. Equities. Emerging Market Equities outperformed Non-US Developed Markets, reflecting, in part, a strong economic rebound.

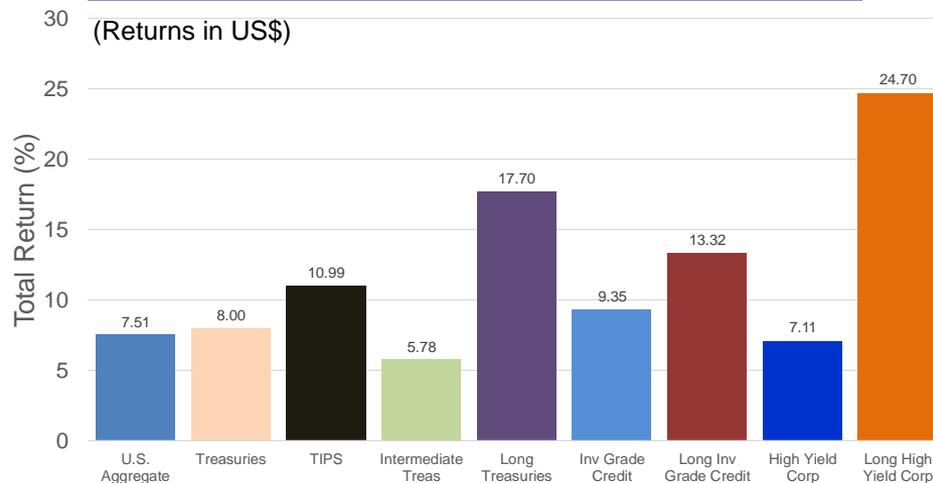
(1) Targeted Allocation effective October 1, 2020

Source: Bloomberg, MSCI, and State Street as of January 17, 2021

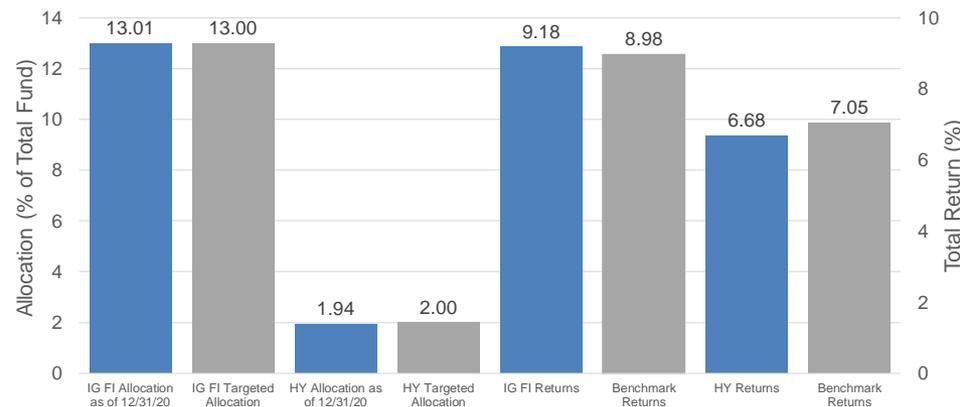
Note: Fund returns are unaudited. Fund allocation and returns are based on preliminary values.

2020 Capital Markets Review: Fixed Income Returns

2020 Select Capital Market Returns



2020 Pension Fund Asset Allocation and Returns (1)



Fixed Income realized strong returns as interest rates declined to record lows, supported by extraordinary monetary policy and government intervention. Following a 21% drawdown over a five week period, High Yield subsequently returned nearly 34% for the balance of 2020 from the March low. Longer duration fixed income outperformed in a declining yield environment.

The Council approved a 2% shift in the targeted allocation from Investment Grade corporate bonds to Private Credit, with both now targeting an 8% allocation. The shift reflects the more pronounced return advantage that private markets now have as public market interest rates remain artificially low.

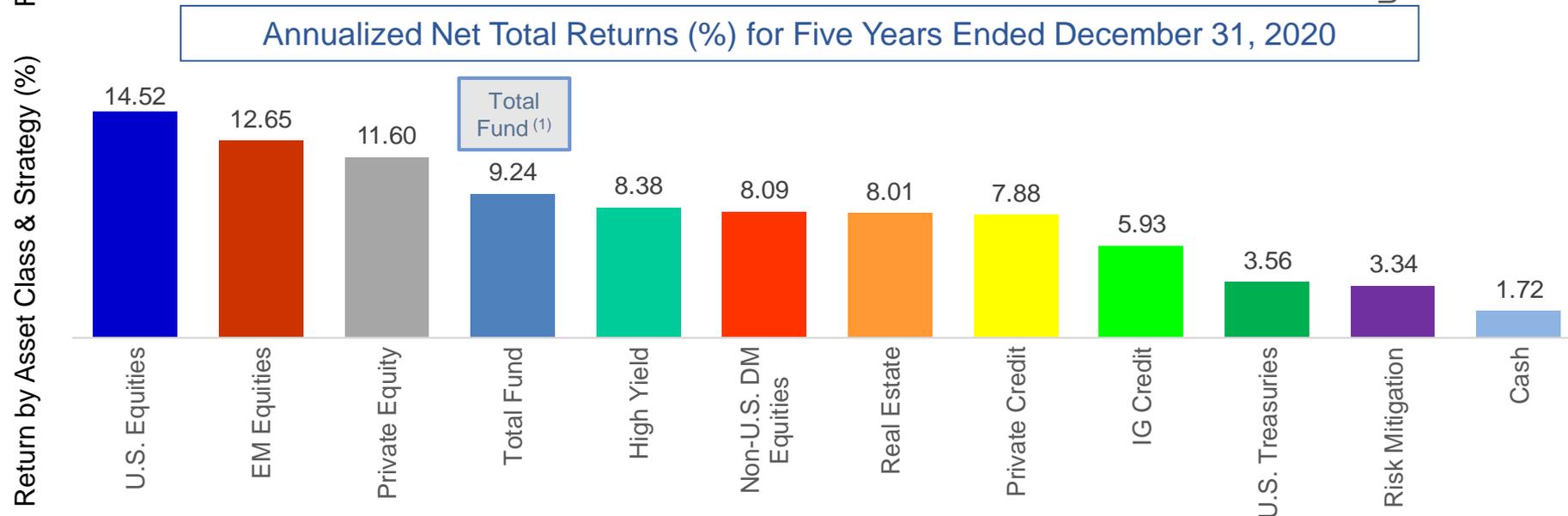
During 2020, the Fixed Income market realized strong returns, supported by government intervention. Credit spreads tightened and longer duration assets outperformed.

(1) Targeted Allocation effective October 1, 2020

Source: Bloomberg, MSCI, and State Street as of January 17, 2021

Note: Fund returns are unaudited. Fund allocation and returns are based on preliminary values.

Pension Fund Five Year Net Returns⁽¹⁾ By Asset Class and Strategy

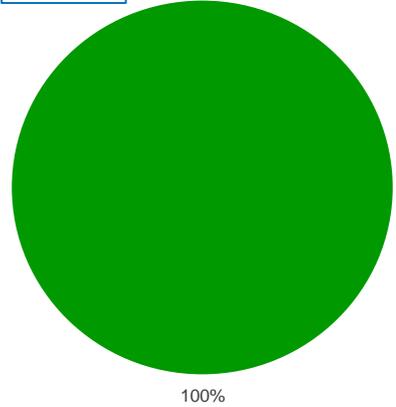


(1) Returns are net of all fees and unaudited. Pension Fund returns exclude Police and Fire Mortgage Program

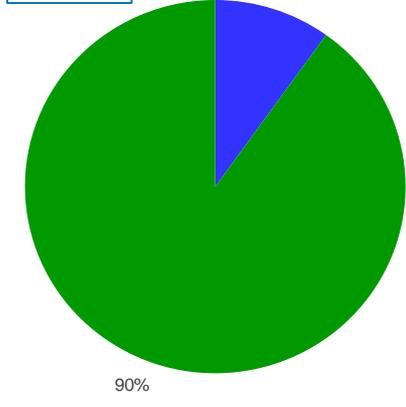
Note: Certain asset class returns, including Private Equity, Real Estate, and Private Credit do not include up-to-date valuations. This results in performance comparisons that may be less meaningful.

Pension Fund Asset Allocation: A Long-Term Perspective

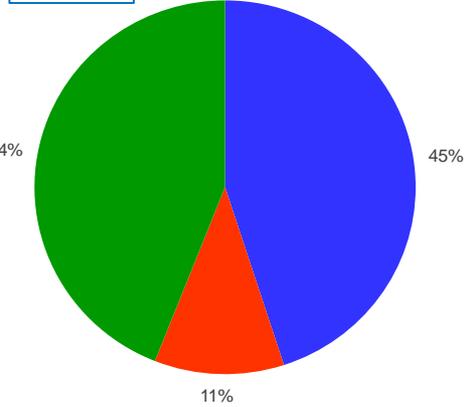
1951



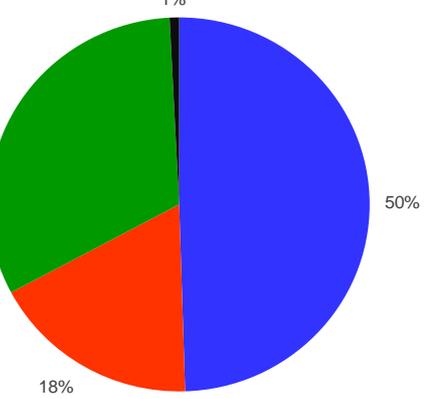
1975



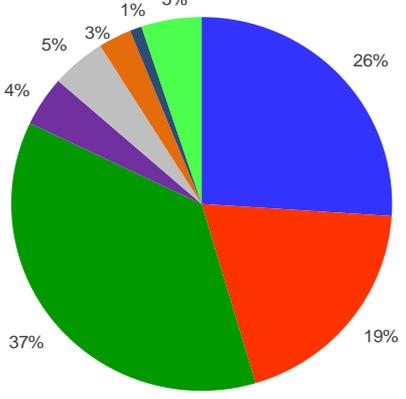
2001



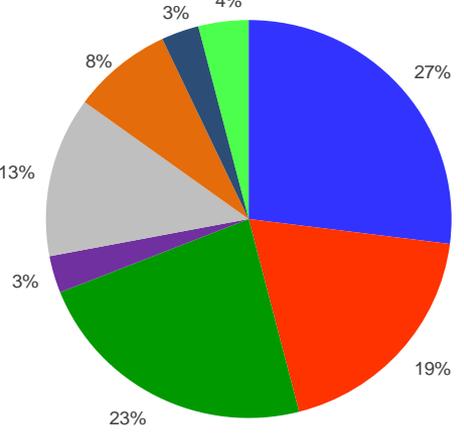
2006



2009



2021 (1)



■ U.S. Equity ■ Int'l Equity ■ Fixed Income ■ Risk Mitigation ■ Private Equity ■ Real Estate ■ Real Assets ■ Cash ■ Alternatives

The well-diversified NJ Pension Fund asset allocation has evolved over a period of decades from a portfolio comprised solely of fixed income securities.

(1) 2021 reflects the Council's current targeted asset allocation that took effect on October 1, 2020

Note: Totals may not equal 100% due to rounding

Recent Trends in the Pension Fund's Targeted Asset Allocation⁽¹⁾

Asset Class	FY 2015 Target ⁽²⁾	FY 2016 Target ⁽³⁾	FY 2017 Target	FY 2018 Target	FY 2019 Target	FY 2020 Target	FY 2021 Target
GLOBAL GROWTH	54.90%	54.75%	58.25%	58.25%	58.25%	59.00%	59.00%
U.S. Equity	27.25%	26.00%	30.00%	30.00%	30.00%	28.00%	27.00%
Non-US DM Eq	12.00%	13.25%	11.50%	11.50%	11.50%	12.50%	13.50%
Emerging Market Eq	6.40%	6.50%	6.50%	6.50%	6.50%	6.50%	5.50%
Private Equity	9.25%	9.00%	10.25%	10.25%	10.25%	12.00%	13.00%
INCOME	19.50%	18.75%	18.50%	18.50%	18.50%	18.00%	18.00%
Investment Grade Credit	10.00%	8.00%	10.00%	10.00%	10.00%	10.00%	8.00%
High Yield	2.00%	2.00%	2.50%	2.50%	2.50%	2.00%	2.00%
Private Credit	7.50%	8.75%	6.00%	6.00%	6.00%	6.00%	8.00%
REAL RETURN	8.25%	8.55%	9.75%	9.75%	9.75%	10.00%	11.00%
Real Estate	5.25%	6.05%	7.25%	7.25%	7.25%	7.50%	8.00%
Real Assets	3.00%	2.50%	2.50%	2.50%	2.50%	2.50%	3.00%
DEFENSIVE	12.25%	13.00%	13.50%	13.50%	13.50%	13.00%	12.00%
Cash Equivalents	5.00%	5.00%	5.50%	5.50%	5.50%	5.00%	4.00%
U.S. Treasuries	3.25%	3.00%	3.00%	3.00%	3.00%	5.00%	5.00%
Risk Mitigation Strategies	4.00%	5.00%	5.00%	5.00%	5.00%	3.00%	3.00%

(1) Prior year targeted allocations have been restated to be consistent with the current asset allocation plan categories approved by the Council. Global Diversified Credit and Credit-Oriented Hedge Funds were combined into Private Credit. Buyouts/Venture Cap and Debt-Related PE were combined into Private Equity. Equity Related Real Estate and Debt Related Real Estate were combined into Real Estate.

(2) FY 2015 target excludes a 4.0% allocation to Equity-Oriented Hedge Funds and a 1.1% allocation to the PFRS mortgage program.

(3) FY 2016 target excludes a 3.75% allocation to Equity-Oriented Hedge Funds and a 1.2% allocation to the PFRS mortgage program.

Division of Investment Update: 2021 Key Goals and Initiatives

The Division will continue to enhance its operations by further strengthening its team and by moving forward on plans to build out its technology infrastructure

- the Division anticipates several additional hires during the first half of 2021 that will strengthen its investment operations and better position itself to meet its long-term investment objectives
- the Division has undergone a comprehensive assessment of its technology needs and anticipates implementing new technology in 2021

The Division will further its ESG efforts through expansion of its engagement efforts and via a focus on the impact of climate change on the Pension Fund's risk profile

- the Division is working closely with a wide range of advocacy groups, trade organizations, and peers to expand its engagement efforts
- the Division will utilize third-party ESG scoring services to better assess ESG-related risks and opportunities
- the Division is in the early stages of developing a framework to evaluate the risks of climate change on the Pension Fund as a whole

Under the leadership of the Diversity Portfolio Manager, the Division will advance its efforts to expand opportunities for minority-owned and women-owned business enterprises (MWBEs)

- further outreach, participation in and sponsorship of diversity events and conferences, and measurement of our efforts will reinforce the Division's commitment to diversity